

State of California

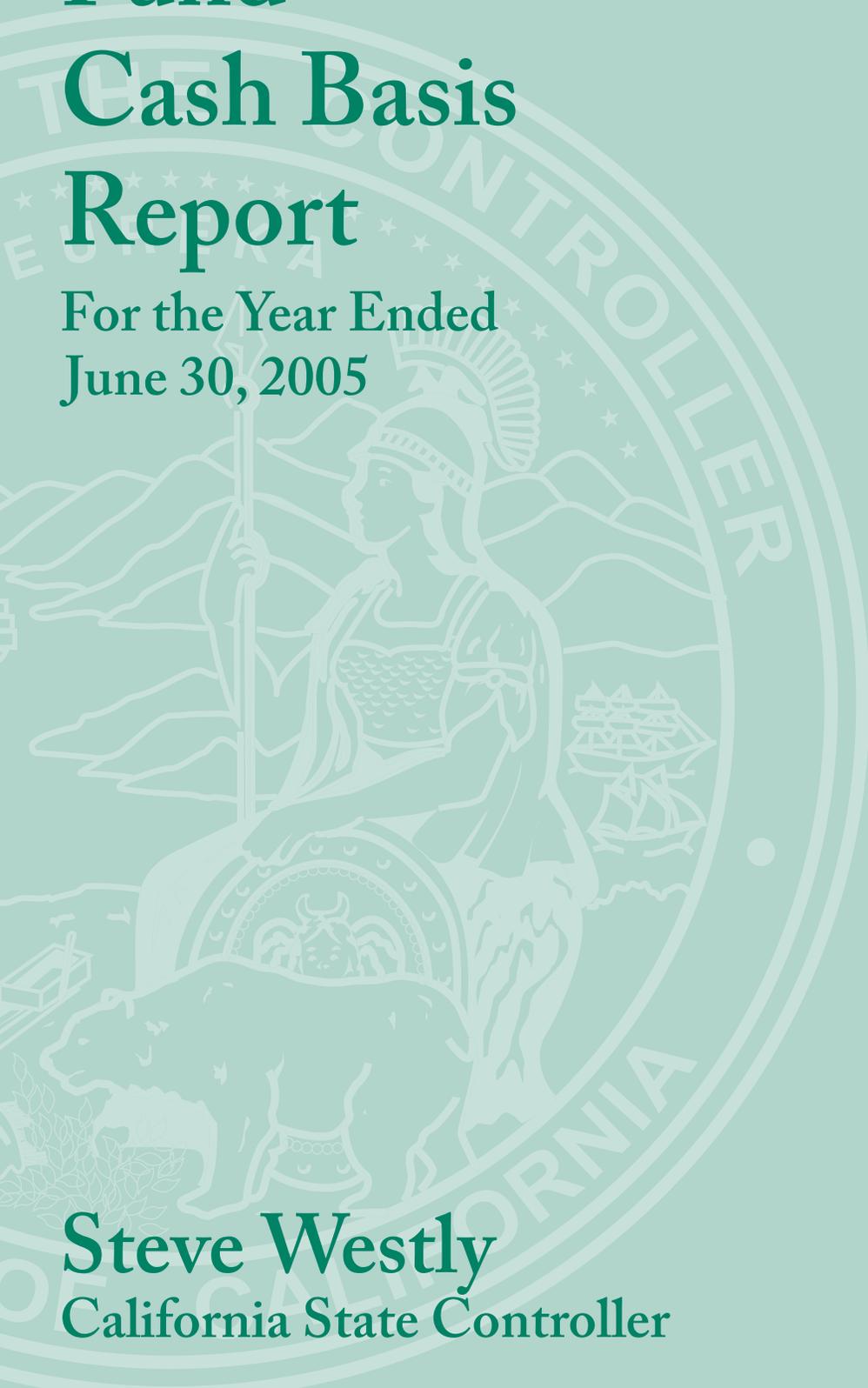
General

Fund

Cash Basis

Report

For the Year Ended
June 30, 2005



Steve Westly

California State Controller



STEVE WESTLY

California State Controller

July 22, 2005

**To the Citizens, Governor, and Members
of the Legislature of the State of California:**

I am pleased to submit to you the *General Fund Cash Basis Report* for the fiscal year ended June 30, 2005. The General Fund ended the 2004-05 fiscal year with a total cash balance of \$7.2 billion, consisting of \$6.4 billion in the General Fund and \$745 million in the General Fund's Special Fund for Economic Uncertainties. This is \$4.4 billion higher than the \$2.8 billion General Fund cash balance at the beginning of the year.

The ending cash balance was higher than expected primarily because the State collected \$4.6 billion in tax amnesty payments. Under the tax amnesty program, the State waived the penalties on certain taxes owed by taxpayers if they paid the amounts owed by the end of May. The net multi-year gain to the General Fund from \$4.5 billion of the tax amnesty collections, per the Governor's May Revision, is only \$380 million, because most of the funds collected were either accelerated payments of amounts the State expected to receive in the future or were amounts that will be refunded to taxpayers.

The State manages General Fund cash shortages through a combination of internal and external borrowing. At my request, the State issued \$6.0 billion in Revenue Anticipation Notes (RANs) on September 29, 2004, to meet cash flow needs during the 2004-05 fiscal year. The RANs were repaid with interest on June 30, 2005.

This report is published to provide authoritative information, using the cash basis of accounting, concerning the financial status of the General Fund as close to the end of the fiscal year as possible. This report does not, however, provide a complete picture of the State's operations or financial position. After the State Auditor completes the audit of the State's finances, I will issue the *Comprehensive Annual Financial Report*, prepared in conformity with accounting principles generally accepted in the United States of America. At that time, I will also issue the *Budgetary/Legal Basis Annual Report*, which contains an accounting of all fund activity in compliance with state law, state accounting procedures, and the state budget.

These reports are available on the Internet at the State Controller's homepage, www.sco.ca.gov, under the category "Publications - State Government Annual Financial Reports."

Sincerely,

Originally Signed by

STEVE WESTLY
California State Controller

Statement of Cash Receipts, Disbursements, and Balances

(Amounts in thousands)

	Year Ended June 30,	
	2005	2004
General Fund Beginning Cash Balance Before Loans, July 1	\$ 538,359	\$ (10,526,890)
Receipts		
Revenues	85,447,296	75,482,847
Nonrevenues (Note 1)	2,489,646	15,156,971
Total Receipts	87,936,942	90,639,818
Disbursements		
State Operations	20,035,355	17,798,511
Local Assistance	61,717,948	58,838,048
Capital Outlay	84,665	385,372
Payment to Deficit Recovery Fund (Note 2)	2,012,000	—
Offset from Economic Recovery Bonds (Note 2)	(2,012,000)	—
Nongovernmental (Note 1)	200,545	2,552,638
Total Disbursements	82,038,513	79,574,569
Receipts Over Disbursements	5,898,429	11,065,249
General Fund Ending Cash Balance, June 30 (Note 3)	6,436,788	538,359
Special Fund for Economic Uncertainties, June 30	744,541	2,216,023
Total Cash, June 30 (Note 1)	\$ 7,181,329	\$ 2,754,382

Borrowable Resources (Note 3)

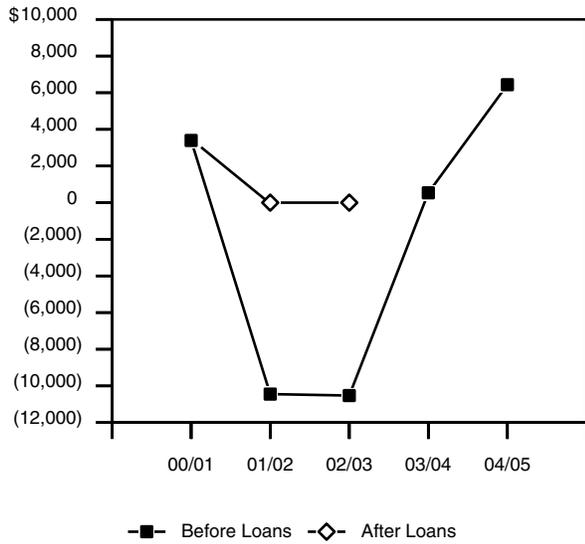
Available Resources

From Special Fund for Economic Uncertainties	\$ 744,541	\$ 2,216,023
From Special Funds and Accounts	9,260,801	7,735,241
Total Available Resources	\$ 10,005,342	\$ 9,951,264

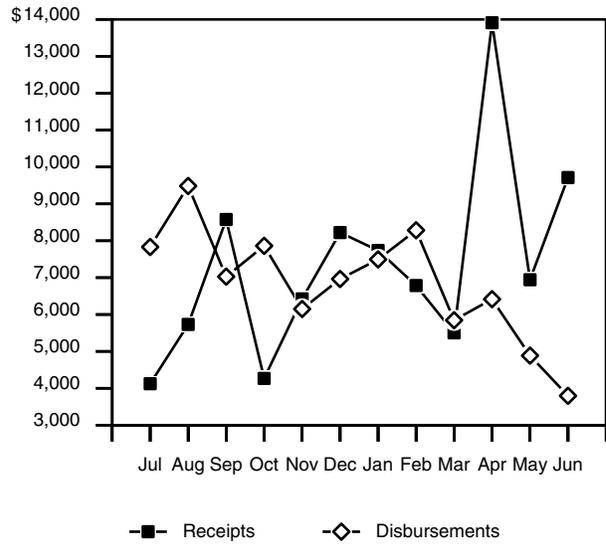
Charts of Cash Receipts, Disbursements, and Balances

(Amounts in millions)

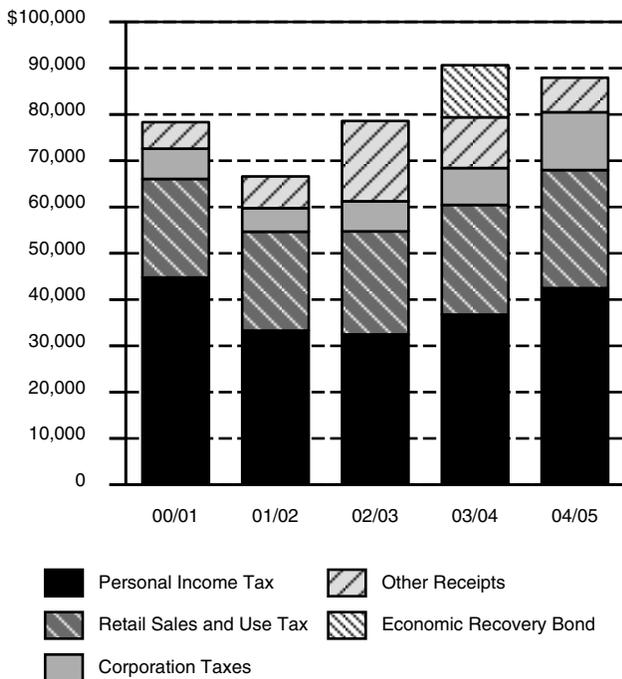
Ending Cash Balances Last Five Fiscal Years



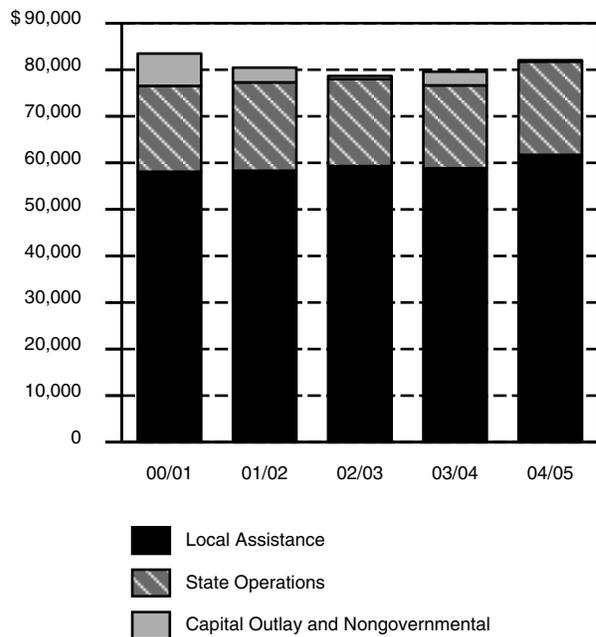
Monthly Cash Receipts and Disbursements Fiscal Year Ended June 30, 2005



Cash Receipts Last Five Fiscal Years



Cash Disbursements Last Five Fiscal Years



Schedule of Cash Receipts

(Amounts in thousands)

	Year Ended June 30,	
	2005	2004
RECEIPTS		
REVENUES		
Major Taxes and Licenses		
Personal Income Tax (Note 4)	\$ 42,476,251	\$ 36,752,037
Retail Sales and Use Taxes (Note 4)	25,506,531	23,699,237
Corporation (Income) Taxes (Note 4)	12,496,503	7,964,152
Tobacco Securitization (Note 5)	—	2,263,609
Insurance Gross Premiums Tax	2,228,317	2,113,933
Estate, Inheritance, and Gift Tax	452,679	574,510
Excise Tax on Beer and Wine	156,672	163,758
Excise Tax on Distilled Spirits	155,999	148,114
Cigarette Tax	122,206	116,903
Total Major Taxes and Licenses	83,595,158	73,796,253
Minor Revenues		
Abandoned Property	707,306	642,602
Child Support Services - Receipts from Local Government	287,281	362,693
Pooled Money Investment Income	167,339	120,126
State Lands Royalties	185,447	107,913
Trial Court Revenues	56,556	44,941
Health Care Deposit Fund Receipts	8,968	12,905
Private Rail Car Tax	6,577	6,637
Horse Racing (Parimutuel) License Fees	2,605	2,452
Liquor License Fees	3,404	2,273
Miscellaneous	426,655	384,052
Total Minor Revenues	1,852,138	1,686,594
Total Revenues	85,447,296	75,482,847
NONREVENUES		
Transfers from Economic Recovery Fund (Note 6)	—	11,254,000
Transfers from Special Fund for Economic Uncertainties.....	1,448,000	2,524,497
Transfers from Other Funds	487,988	895,577
Miscellaneous	553,658	482,897
Total Nonrevenues	2,489,646	15,156,971
TOTAL RECEIPTS	\$ 87,936,942	\$ 90,639,818

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2005	2004
DISBURSEMENTS		
STATE OPERATIONS		
Legislative/Judicial/Executive	\$ 1,298,574	\$ 1,261,202
Resources	761,199	714,746
State and Consumer Services	509,350	468,069
Environmental Protection Agency	50,461	77,648
Business, Transportation, and Housing	3,386	5,719
Health and Human Services		
Mental Health Hospitals	571,258	524,381
Health Services	258,528	229,969
Other Health and Human Services	589,512	632,042
Total Health and Human Services	1,419,298	1,386,392
Youth and Adult Correctional Agency	6,364,036	5,042,508
Education		
University of California	2,670,057	2,919,292
State Universities and Colleges	2,488,257	2,615,895
Other Education	146,158	153,346
Total Education	5,304,472	5,688,533
Debt Service	3,032,522	1,860,442
General Government (Note 7)	1,265,848	1,157,239
Interest on Loans	89,360	282,573
Public Employees Retirement System	(63,151)	(146,560)
Total State Operations	20,035,355	17,798,511
LOCAL ASSISTANCE		
Judicial/Executive	1,556,186	1,239,543
Resources	(14,579)	99,998
Business, Transportation, and Housing	24,089	28,613
Environmental Protection Agency	7,181	5,174
Health and Human Services		
Department of Health Services	11,979,642	11,298,887
Department of Social Services	8,397,579	8,329,403
Department of Developmental Services	1,604,536	1,602,228
Department of Mental Health	98,471	383,796
Other Health and Human Services	855,101	1,037,359
Total Health and Human Services	22,935,329	22,651,673

(Continued)

Schedule of Cash Disbursements

(Amounts in thousands)

	Year Ended June 30,	
	2005	2004
Youth and Adult Correctional Agency	\$ 214,051	\$ 144,739
Education		
K-12 Education	29,428,525	25,678,841
Community Colleges	3,042,733	2,280,341
Teachers' Retirement System	1,148,792	509,763
Other Education	2,325,743	2,149,852
Total Education	35,945,793	30,618,797
Tax Relief		
Vehicle License Fee Offset (Note 8)	—	2,996,708
Homeowners Property Tax Relief	—	424,785
Senior Citizens Renters Assistance	1,155	142,162
Senior Citizens Property Tax Deferral and Assistance	665,182	51,934
Subventions for Open Space	809	38,497
Miscellaneous Tax Relief	188	278
Total Tax Relief	667,334	3,654,364
General Government	382,564	395,147
Total Local Assistance	61,717,948	58,838,048
CAPITAL OUTLAY		
Total Capital Outlay	84,665	385,372
Payment to Deficit Recovery Fund (Note 2)	2,012,000	—
Offset from Economic Recovery Bonds (Note 2)	(2,012,000)	—
NONGOVERNMENTAL		
Transfer to Special Fund for Economic Uncertainties	—	2,216,000
Transfer to Other Funds	141,938	431,270
Transfer to Revolving Fund	35,650	(69,515)
Advances		
Counties for Social Welfare	60,539	19,976
Social Welfare Federal Fund	(37,582)	(45,093)
State-County Property Tax Administration Program	—	—
Total Nongovernmental	200,545	2,552,638
TOTAL DISBURSEMENTS	\$ 82,038,513	\$ 79,574,569

(Concluded)

Notes to Statements and Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The *General Fund Cash Basis Report* is based on cash reported to and recorded in the records of the State Controller's Office. Amounts reported may differ from amounts in other reports to the extent that there are timing differences in the recording of in-transit items between agencies, the State Treasury, and the State Controller's Office. The cash basis of accounting does not reflect accruals.

The "Statement of Cash Receipts, Disbursements, and Balances" does not include cash in the Special Fund for Economic Uncertainties, in the report's balances, except for the balance titled, "Total Cash, June 30."

Nonrevenue receipts are transfers or miscellaneous receipts from other funds that do not represent revenues of the General Fund. "Transfers from Other Funds" are legally authorized movements of money into the General Fund from other funds that are responsible for the initial receipt of the money. "Miscellaneous" nonrevenue receipts include reimbursements that are not credited to a specific appropriation, and certain other receipts that are not defined as revenue.

Nongovernmental disbursements are transfers or advances to other funds that do not represent expenditures of the General Fund. "Transfers to Other Funds" are legally authorized movements of money from the General Fund, which is responsible for the initial receipt of the money, to other funds that are responsible for the actual expenditure. "Advances" include certain legally authorized loans to other funds and governmental entities and the repayments of those loans. Negative balances are the result of repayments received that are greater than disbursements made during the fiscal year.

NOTE 2: ECONOMIC RECOVERY BONDS/DEFICIT RECOVERY FUND

As a component of the issuance of the Economic Recovery Bonds (ERBs), \$2.0 billion of ERB receipts was paid to the Deficit Recovery Fund from the General Fund and then returned to the General Fund.

NOTE 3: BORROWABLE RESOURCES

Government Code sections 16310 and 16418 authorize transfers to the General Fund from other funds in the State Treasury, and Government Code section 17300 authorizes the borrowing from external sources to meet the State's short-term borrowing needs. External sources of funds to meet short-term borrowing needs are obtained by issuing Revenue Anticipation Notes (RANs), Revenue Anticipation Warrants, and Registered Warrants.

With respect to short-term external borrowing, the State issued \$6.0 billion in RANs on September 29, 2004, which were repaid on June 30, 2005. The State ended the 2003-04 and 2004-05 fiscal years with no short-term external loans.

NOTE 4: TAX AMNESTY PROGRAM

Chapter 226, Statutes of 2004, created a personal income tax, corporate tax, and retail sales and use tax amnesty program for 2002 and prior tax years. Penalties were waived for taxpayers who applied for amnesty during the amnesty period of February 1, 2005, to March 31, 2005. Although taxpayers were required to apply

within this time frame, taxpayers had until the end of May 2005 to submit their tax returns and pay amounts owed. Taxpayers who could have applied for amnesty but did not are subject to higher penalties if found to owe additional amounts for amnesty years. The tax amnesty program generated total collections of \$4.6 billion, which consisted of \$3.7 billion from corporation taxes, \$713 million from personal income taxes, and \$140 million from retail sales and use taxes. However, the Governor's May Revision estimates the net multi-year General Fund personal and corporate income tax revenue gain from the amnesty program will be only \$380 million. The reason for the lower net multi-year gain is that the majority of the collections were for payments that had been anticipated to be received in the future or for amounts that will be refunded to taxpayers.

NOTE 5: TOBACCO SECURITIZATION

On November 16, 1998, eight states, including California, and four major tobacco companies agreed to settle pending lawsuits brought by the states against the tobacco industry. The settlement agreement requires the tobacco companies to make payments to the State of California in perpetuity. During the 2003-04 fiscal year, the General Fund received \$2.3 billion from the sale of Tobacco Securitization Bonds. These bonds are secured by the future tobacco settlement payments to be received by the State.

NOTE 6: TRANSFERS FROM ECONOMIC RECOVERY FUND

Proposition 57, the Economic Recovery Bond Act, was approved by the voters in the March 2, 2004, election. It authorizes the State to sell up to \$15 billion in general obligation bonds to address the accumulated state budget deficit. These bonds are secured by a 1/4-cent sales tax. In the event revenues derived from the dedicated sales tax are insufficient for the interest and principal payments in any given year, the General Fund will be responsible for these payments. During the 2003-04 fiscal year, the State issued \$10.9 billion in bonds, which provided \$11.3 billion to the General Fund because the bonds were sold at a premium.

NOTE 7: TECHNOLOGY, TRADE, AND COMMERCE PROGRAMS

State Operations—General Government includes programs that were previously reported by the Technology, Trade, and Commerce Agency. This agency was abolished on January 1, 2004.

NOTE 8: VEHICLE LICENSE FEE (VLF) OFFSET

Chapter 322, Statutes of 1998, established a phased-in VLF reduction program. Beginning January 1, 2001, the reduction was increased to 67.5%. The General Fund transferred \$3.0 billion for the 2003-04 fiscal year to the Motor Vehicle License Fee Account and the Local Revenue Fund to offset the impact of these reductions on local governments. The General Fund transfers were discontinued during the 2003-04 fiscal year with no replacement revenue, resulting in an estimated revenue loss of \$1.1 billion by local governments for that fiscal year. Subsequently, Chapter 39, Statutes of 2005 appropriated \$1.1 billion for the 2005-06 fiscal year to replace this revenue loss to local governments.